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Summary:

- The Fed disappoints: A hawkish cut
- Trump's trade tweets tilt risks
- Market sell signal still in effect
    - Potential broadening top forming in the S&P 500
- Carry trade unwind (US dollar susceptible to major selloff)
- Trades:
    - Add to GBTC
    - Starter position in long platinum

Fund manager Bill Miller wrote the following in a recent note with emphasis by me (link here):

> *The problem with the Fed's 25 basis point cut yesterday was not in the messaging as expressed in Chairman Powell's press conference, which is the consensus view, but in the substance of what was done.* ***The Fed seems not to understand that when you do what the market is already expecting, as it did yesterday with the 25 basis point reduction, you do not change expectations, you only reinforce them****. Since forward-looking global indicators have all been pointing to a slowing global economy, the cut did nothing to change expectations about growth or inflation. It is worrisome that the result of yesterday's decision sent stocks down and the dollar up, and that is now being followed today by a sharper decline in stocks, a big rally in treasuries and a big decline in inflation expectations:* ***the exact opposite of what the Fed wants to happen****.*

This is a point that I've been making. The Fed may not like it but they're beholden to the market. We live in a financialized world where the market tail wags the economic dog. The result of 35+ years of declining interest rates, rising private debt, and enormous asset price inflation.

The Fed needs to cater to the market as much as it needs to cater to the economy if it wants to meet its dual mandate of maximum employment and 2% inflation. The market is just as responsible, if not more so at this point than the economy in setting the conditions for the Fed to meed these two benchmarks.

This is why the Fed finds itself in an expectations game that it can't afford to *not* play. It's a game where the market sets the expectations and the Fed has to meet them, positively surprise them, or **risk losing control.**

Last week, the FOMC failed to meet the market's expectations. The Fed cut 25bps and announced a slightly earlier end to QT. But, its messaging and forward guidance were clearly more hawkish than what the market was demanding. The main points of difference being:

- An addition to the press release of "As the Committee contemplates the future path of the target range for the federal funds rate…" which implies that the Fed is thinking of this as a one and done insurance cut.
- Jerome Powell calling it a "mid-cycle cut" which again implies that no further cuts are planned unless the data deteriorates materially.
- Plus, there were two dissenters on the FOMC who voted for no cut at all.

The market was pricing in 75bps cuts by the end of the year. If the Fed were to meet the market's expectations it would have had to cut by 25bps and signal greater cuts to come. But this would only have had a neutral impact on the market since this was already embedded into prices. **There would have been zero stimulative impact; which is the point of cutting interest rates in the first place.**

The market is pricing in more cuts because the forward-looking data is getting materially worse. And since the Fed failed to meet the market's expectations, its 25bps cut is actually having a tightening effect on financial conditions. To do a proper insurance cut, the Fed would've needed to exceed expectations, positively surprise the market, and cut by 50bps or more this meeting and signal an aggressive willingness to cut rates should the data fail to get better.

But alas, that's not what the Fed did and so we now have a market adjusting its expectations by selling off stocks and bidding up bonds.

Now, this selloff was going to happen regardless. We began pointing out two weeks ago in our Brief "A Bad Moon Rising…" and again last week in "Placate the Market" that our indicators showed investors had become too bullish in sentiment and positioning. These overly optimistic expectations didn't jive with "some of the worst earnings revisions guidance in 10-years", stretched valuation multiples (FWD PE for the S&P near 18x), and slowing economic growth.

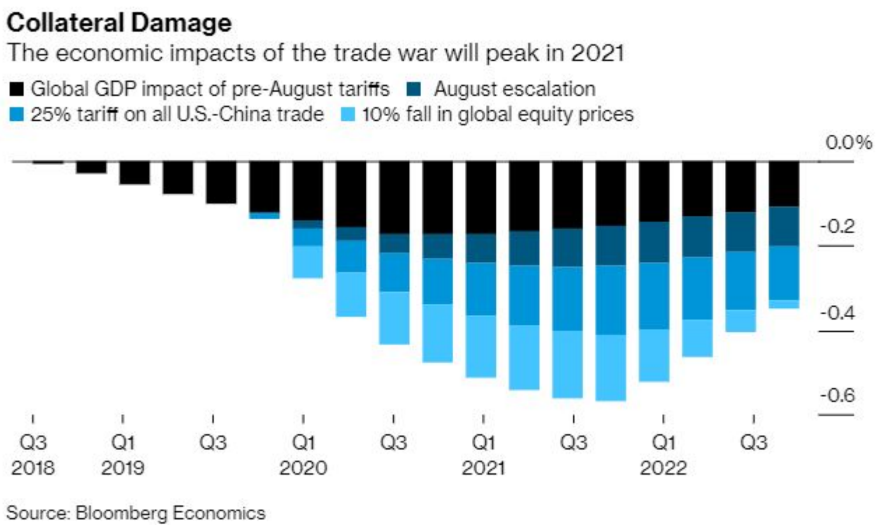
The disappointing Fed along with Trump escalating the US-China trade war was just the sparks to an already very fire-prone kindle.

Regarding the trade war, there's the possibility that Trump is escalating things in order to force the Fed's hand into giving him the lower rates he so badly wants. This will probably work, as now the Fed is much more likely to cut in September.

But... the risk is growing that the market begins — correctly, I might add — pricing in zero chance of a US-China trade deal; only further escalation and spillovers into other arenas, such as currencies (China's move to depreciate the yuan may lead to an FX race to the bottom).

In a world with a contracting manufacturing base, this is a very dangerous game to play. Indicators point to a much lower ISM here in the US in the month's ahead as well as companies pulling plans to invest in growth. **Trump risks further killing business confidence which could very well tip us into recession.**

Plus, the negative economic impacts of this trade war are only set to accelerate over the coming quarters.



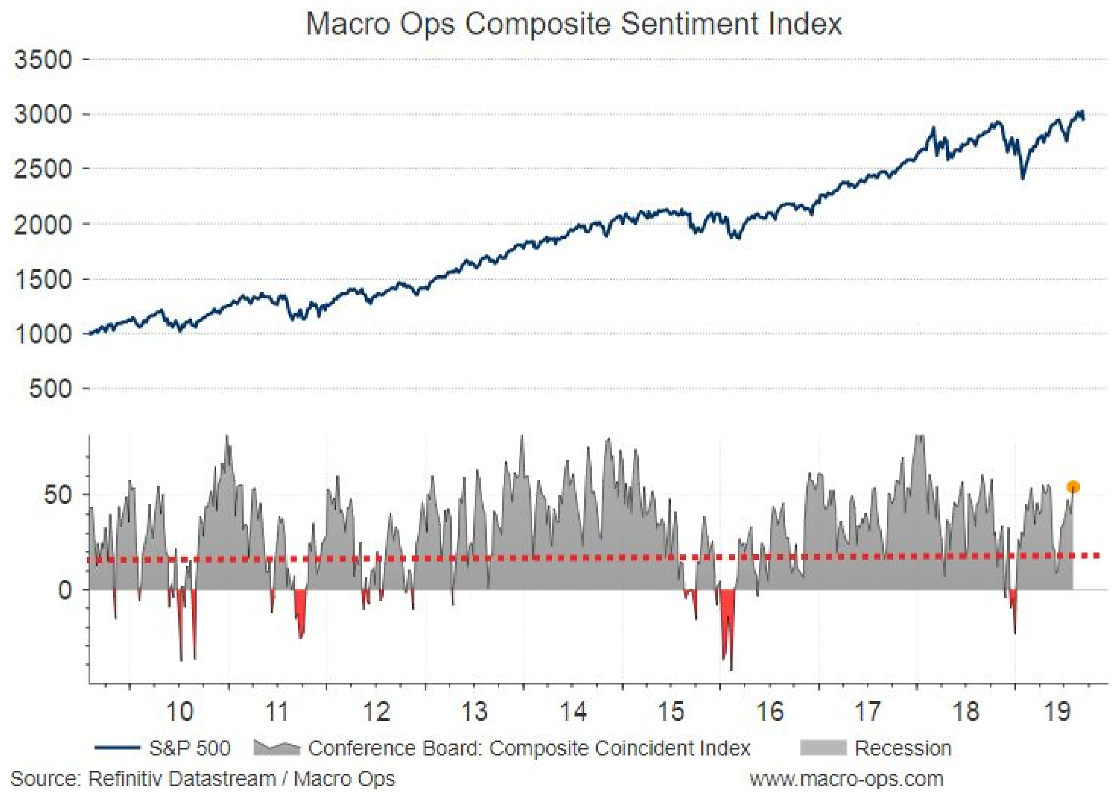
This increasingly negative backdrop puts the Broadening Top formation in the S&P in play (chart below). My bias is for further downside followed by extended sideways chop over the coming month. Because of this *and* the increased tape-bomb risk of Trump tweeting something, I have little interest in playing equities to the long side here.

We reduced our long equity book to less than 50% of NAV two weeks ago. And it's even less than that if you account for our position in our two gold/silver miners (AU and AG), which should continue to benefit from falling real rates and rising uncertainty.

Here’s what I’m looking for to indicate a bottom in stocks is near.

Starting from top left and moving clockwise (1) We should see the percent of stocks above their 50dma fall to below the 20% level, in the green zone (2) Semis (SMH) are already at their lower Bollinger Band but they'll likely trade lower from here. We want to see them bottom and turn higher, as they should lead on the way up (3) Our take on the Zweig Breadth Thrust indicator should trade down to the lower green horizontal line (4) The Total Put/Call ratio should trend higher, near the top green line.

We also want to see sentiment reset. That means our Composite Sentiment Index needs to fall below 12 (red line) to signal a significant bottom is in place. Until a majority of these conditions are met, expect greater downside and sideways chop to continue.



US Dollar: At risk of carry trade unwind and Trump's wrath

The funding currencies (JPY, CHF, EUR) have been going on a tear these last few days, while the DXY has been doing the opposite. The chart below is a daily of the Swiss franc (CHF), which we are long.

It's too early to tell, but I think we may be seeing the beginnings of a carry trade unwind. I'll be sending out a note on this tomorrow but the short of it is this: A carry trade is when investors borrow in a low yielding currency (say, JPY or CHF) to buy a higher-yielding one, such as the US dollar.

Carry trades tend to unwind when market volatlity (both in FX, equities, and bonds) picks up because it then becomes too costly to hedge your risk and your total return prospects collapse.

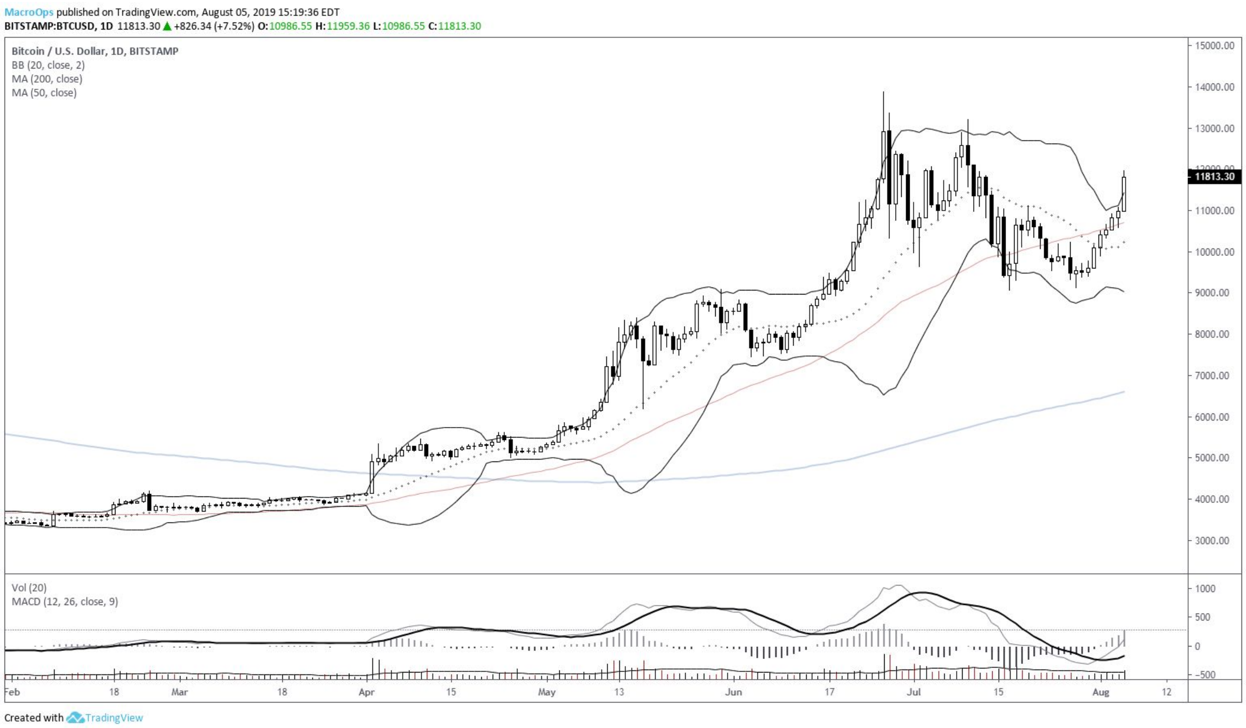
The US dollar is also now squarely in the crosshairs of this administration. I don't buy the recent reassurances from Trump and Mnuchin that they're not working on engineering a lower dollar. I suspect, especially after China's latest depreciation of the yuan, that they are going to come out hard against the dollar in the coming months.

It's been tough going being a dollar bear this last month but I think the tide is about to change and change in a big way.

But before we can move aggressively we want to see EM pairs stabilize against the dollar first, which I don't expect to happen until this market selloff settles.

Trades: Add to GBTC and open a starter long position in Platinum

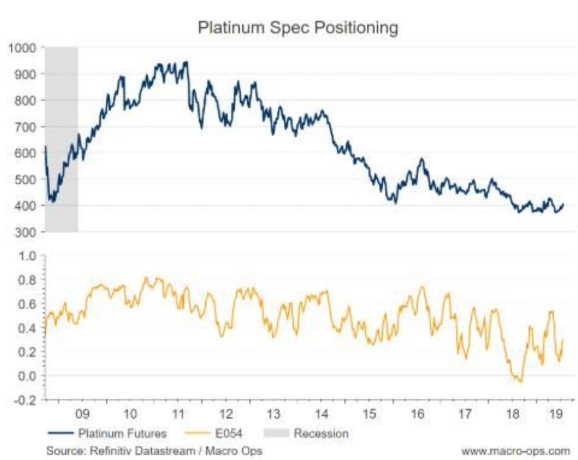
Bitcoin is accelerating to the upside. The cryptocurrency is benefiting from the same macro drivers as gold, bonds/eurodollars, and CHF. That is the enveloping trend of negative-yielding assets and funnily enough, a flight to safety bid. We're adding to our long position in the bitcoin trust (GBTC), trade details are below.

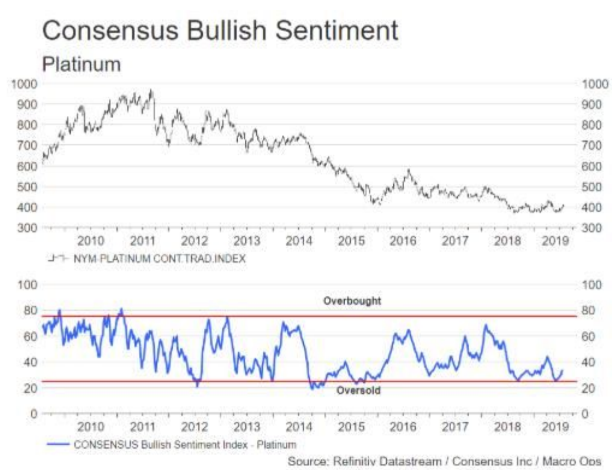


Symbol: Add to Bitcoin Investment Trust - GBTC
Size: 50bps
Entry: $14.78
Risk Point: Moving entire stop up to $14.00

We’re also opening a starter long position in platinum. As we pointed out in a recent weekly Musings ([link here]()), platinum just completed a 9-week horn bottom, which is a classic bullish/bottoming pattern.

Both positioning and sentiment are supportive of a trend higher.





And the platinum-to-gold ratio is at its lowest level ever. Similar to silver’s delayed response to gold’s rise, I think platinum will be one of the last metals to wake up and play catch up to the new bull market in precious metals.

Its recent pullback to the middle of its BB and horn line gives us a good R/R entry point to try and catch a potential trend. Details for the trade are below.

Symbol: Long Plantinum Futures (October 19' contract)
Size: 50bps
Entry: $857.9
Risk Point: close below $842.0

That's all I've got for now.

If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD						
		10.11%						
Big Bet Macro								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	4,338	$12.25	6.11%	$10.80	$17.00	$15.38	25.55%
Equity	Disney DIS	709	$102.34	9.42%	$108.50	$150.00	$144.96	41.65%
Equity	Graftech (EAF)	2,205	$13.59	2.24%	$10.00	$25.00	$11.06	-18.62%
Equity	Frontdoor (FTDR)	1,240	$34.10	5.40%	$28.00	$55.00	$47.49	39.27%
Equity	Anglogold (AU)	4,478	$14.48	7.74%	$14.00	$40.00	$18.85	30.18%
Equity	Russell 2000 (IWM)	-1,564	$154.41	-22.49%	$160.00	$145.00	$156.88	-1.60%
Equity	W&T Offshore (WTI)	4,710	$4.81	1.89%	$3.60	$8.00	$4.38	-8.94%
Equity	Ecopetrol (EC)	1,686	$18.78	2.79%	$15.40	$25.00	$18.05	-3.89%
Equity	Sandridge Energy (SD)	4,911	$6.41	2.98%	$5.80	$12.00	$6.62	3.28%
Equity	Target Hospitality (TH)	5,000	$9.90	3.90%	$8.50	$15.00	$8.51	-14.04%
Equity	Scorpio Tankers (STNG)	1,700	$27.10	4.12%	$2.00	$40.00	$26.46	-2.36%
Equity	TSLA Sep '19 175 Put	11	$13.81	0.25%	$0.00	$85.00	$2.45	-82.26%
Equity	TSLA Jun '20 100 Put	14	$10.70	0.77%	$0.00	$85.00	$6.00	-43.93%
Equity	TSLA Jan '20 150 Put	5	$15.01	0.31%	$0.00	$60.00	$6.80	-54.70%
Equity	DIS Jan '20 165 Call	68	$1.11	1.71%	$0.00	$10.50	$2.75	147.75%
Equity	AG Jan'20 15 Call	387	$0.35	1.31%	$0.00	$3.50	$0.37	5.71%
Crypto	Buy Bitcoin (GBTC)	3000	$13.88	3.52%	$11.79	$25.00	$12.82	-7.64%
FX	Sep CAD Futures	5	$0.7587	34.82%	$0.7467	$0.8096	$0.7599	0.16%
FX	Sep CHF Futures	7	$1.0301	81.03%	$1.0067	$1.0887	$1.0104	-1.91%
							**Updated 7/28	